

Message Text

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15

ACTION EUR-12

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FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 9107

INFO AMEMBASSY COPENHAGEN

AMEMBASSY MOSCOW

AMEMBASSY OSLO

AMEMBASSY REYKJAVIK

AMEMBASSY STOCKHOLM

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

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USMISSION EC BRUSSELS

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UNCLAS HELSINKI 1939

E.O. 11652: N/A

TAGS: EEWT, ECON, ETRD, FI

SUBJECT: EXPANSION OF FINNISH EXPORT GUARANTEE SYSTEM MAINLY
TO COVER CONSTRUCTION PROJECTS IN USSR

REF: (A) HELSINKI A163; (B) HELSINKI 1921; (C) HELSINKI 1139

1. PRESIDENT KEKKONEN AND PRIME MINISTER KOSYGIN SIGNED IN
SVETOGORSK ON SEPTEMBER 1 AGREEMENT ON SECOND CONSTRUCTION PHASE
OF SVETOGORSK WOODPROCESSING PLANT. NEW EXPORT GUARANTEE
SYSTEM WAS KEY ELEMENT MAKING POSSIBLE SIGNING OF CONTRACT
WITH SOVIETS FOR SVETOGORSK ACETATE PULP PLANT, PHASE TWO.
TOTAL PRICE OF PHASE TWO (EXCLUDING MACHINERY) IN NEIGHBORHOOD
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OF 700 MILLION FMK, TWICE AS EXPENSIVE AS PHASE ONE. SOVIETS

HAVE AGREED TO PAY FOR UPWARD COST DRIFT OF UP TO 10 PERCENT, OR ABOUT 50 MILLION FMK, DURING FOUR-YEAR PERIOD OF CONTRACT. STATEEXPORT GUARANTEES WILL APPLY TO INFLATION COSTS ABOVE THIS AMOUNT, AFTER BASIC CRITERIA DESCRIBED PARA 3 REF C ARE MET. IT IS BELIEVED THAT CONCLUSION OF AGREEMENT ON SVETOGORSK HAS PAVED WAY FOR SIMILAR AGREEMENT ON KOSTAMUS (KOSTAMUKSA) AND PAAJARVI (PYAOZERO).

2. FINLAND'S COUNCIL OF STATE MADE A DECISION AUGUST 28 TO EXTEND STATE EXPORT GUARANTEES TO FINNISH CONSTRUCTION FIRMS WHICH HAVE CONSTRUCTION PROJECTS OUTSIDE FINLAND. STATE GUARANTEES ARE INTENDED TO COMPENSATE FOR PART OF LOSS CONSTRUCTION COMPANIES MAY INCUR BECAUSE OF INCREASED DOMESTIC COSTS.

3. MAIN PURPOSE OF CONSTRUCTION GUARANTEE SYSTEM IS TO SPEED UP NEGOTIATIONS FOR SOVIET PROJECTS IN KOSTAMUS, SVETOGORSK AND PAAJARVI. FINNISH CONTRACTORS HAVE NOT WANTED TO MAKE LOW OFFERS BECAUSE CONTRACTS ARE FOR SEVERAL YEARS' WORK AND DOMESTIC INFLATION WILL ALMOST SURELY CAUSE EXPENSES TO RISE SO THAT PROJECTS WILL BE UNPROFITABLE. SOVIET NEGOTIATORS HAVE IN TURN EMPHASIZED THAT THEY ARE NOT WILLING "TO PAY FOR FINNISH INFLATION."

4. CONTRACTORS HAVE UNTIL END OF JULY 1976. TO APPLY FOR STATE EXPORT GUARANTEES. APPLICATIONS MUST BE SUBMITTED BEFORE FINAL AGREEMENTS ARE SIGNED. EXPORT GUARANTEE SYSTEM IS CALLED RAK-K-GUARANTEE SYSTEM (RAKEQUALS CONSTRUCTION), AND IS EXTENSION OF EXISTING K-GUARANTEE SYSTEM.

5. THE MINISTRY OF TRADE AND INDUSTRY NOTED THAT BROADENED GUARANTEES MAY RESULT IN COSTS FOR STATE. RAK-K-GUARANTEES WILL COMPENSATE FOR LOSSES CAUSED BY INCREASED DOMESTIC PRICES. BASIS FOR COMPENSATION IS FINNISH BUILDING COST INDEX. GUARANTEE PERIOD STARTS FROM SIGNING OF CONTRACT TO FINAL COMPLETION. FINAL PAYMENT WILL NOT BE MADE UNTIL CONSTRUCTION PROJECT IS COMPLETED. MAXIMUM LENGTH OF GUARANTEE IS FIVE YEARS. RAK-K-GUARANTEE WILL COST CONSTRUCTION COMPANIES 0.01 PERCENT OF CONTRACT PRICE PER MONTH

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PLUS 50,000 - 100,000 FMK HANDLING CHARGE. BECAUSE OF NEED FOR CAPITAL TO COVER RAK-K-GUARANTEES, EXISTING EXPORT GUARANTEE LAW MUST BE AMENDED. MAXIMUM AMOUNT OF GUARANTEES WHICH EXPORT GUARANTEE INSTITUTE IS AT PRESENT AUTHORIZED TO ISSUE IS 5 BILLION FMK.

6. RAK-K- GUARANTEE SYSTEM DOES NOT COMPENSATE FOR COST OVER-RUNS CAUSED BY MISCALCULATIONS REGARDING NECESSARY MATERIALS

OR MANPOWER. NEITHER DOES IT COVER PENALTIES FOR LATE
COMPLETION.
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